

Treasury Committee

Oral evidence: The venture capital market, HC 134

Wednesday 24 May 2023

Ordered by the House of Commons to be published on 24 May 2023.

[Watch the meeting](#)

Members present: Harriett Baldwin (Chair); Douglas Chapman; Dame Angela Eagle; Dame Andrea Leadsom.

Questions 116-182

Witnesses

I: Dr Mark Payton, CEO, Mercia Asset Management; Catherine Lewis La Torre, CEO, British Patient Capital; Douglas Hansen-Luke, Executive Chair, Future Planet Capital; and Dr Amrit Chandan, Co-Founder and CEO, Aceleron Energy.

Examination of witnesses

Witnesses: Dr Mark Payton, Catherine Lewis La Torre, Douglas Hansen-Luke and Dr Amrit Chandan.

Q116 **Chair:** Welcome to this afternoon's Treasury Committee session on the venture capital market. I am very grateful to our witnesses for coming along and giving evidence this afternoon. I start by inviting them to introduce themselves, starting with Catherine.

Catherine Lewis La Torre: I am Catherine Lewis La Torre. I am the CEO of British Patient Capital, which is the venture capital investment arm of the British Business Bank.

Dr Amrit Chandan: I am Dr Chandan, the CEO and co-founder of Aceleron Energy. We are a small company based in the midlands that looks to create a positive impact on the world.

Dr Mark Payton: I am Mark Payton, the chief executive and co-founder of Mercia Asset Management. We set it up back in 2010 to address the challenges of capital deployment in the regions and support for businesses. Three of us set it up, with £8 million under management. We have floated the business since then. We are on AIM, and we have about £1.4 billion over 140 employees and eight offices. More than 90% of what we do is outside of London in private equity, venture and debt. We invested about £200 million last year in small businesses, most of which were based in the regions.

Douglas Hansen-Luke: I am Doug Hansen-Luke, and I am the founder and executive chair of Future Planet Capital. We are an impact-led global venture capitalist that is based in London and is British owned. We invest in companies and spin-outs from top universities at a global level. Nationally, we have been investing in companies coming out of the deep tech sector in the UK. Regionally, we have been investing and benchmarking against all of those national and global companies investing regionally as well. In total, we have made 300 investments since 1998 as a group. We have 60 successful exits and our current portfolio is about 180, of which about 110 are British companies.

Q117 Chair: Great. We invited you in because you are all people who are on the front line in terms of venture capital and starting businesses. I will start with a general question to each of you, which is: is the UK a good place to be an entrepreneur? Let's start with Douglas.

Douglas Hansen-Luke: Yes, is the quick answer. From a global perspective, Britain has the fourth largest number of unicorns in the world. The three countries ahead of us are America, China and India—all countries with larger populations than us, and two of them with far larger economies as well. At one level, we are getting it right. At many other levels, we have a shortage so that we are much slower. The velocity of capital and the speed with which we can grow companies—that is a challenge for us. It is a challenge of our internal systems and structures, but it is also a reflection of the reality that Britain is less than 1% of the world's population. We are less than 2% of its GDP, but we do have some world-leading technologies and world-leading assets; it is a question of perhaps connecting them more. It is a yes and a no.

Chair: We will get to the recommendations for improvement.

Dr Mark Payton: I am very fortunate to come from many sides of the equation. I was an academic originally and I worked at the tech transfer in Oxford, which was a real eye-opener for me. I am sure that we will talk about university spin-outs, but there is a lot in that that can be done. I set up one biotech business, and I founded Mercia to reflect some of the restrictions and challenges. I think it is a really good place to set up a business. This is not about big changes; it is about improvements. I personally think the pieces are all there, and they just need to be improved a little. Frankly, it would be good to get more Mercias out into the regions, so that there are more investors passionately focused, as we are, on doing good things for good people out in the regions.

Dr Amrit Chandan: From my perspective, the UK is a great place to start a company. There are lots of things that make it a very friendly place to start a business. Trying to shut down a company in another country can be really challenging, but here it is very simple if you need to do that. For start-up companies, the practicalities are fairly well supported. Having now spoken to investors in America, investors in Europe and investors here in the UK, I would say that out of those three regions, the US is probably better and Europe is probably more difficult. That is a very generalist statement, considering how large Europe is, but it is much harder to raise

investment in France and Germany than it is in the UK, versus the US on the other side.

Catherine Lewis La Torre: I would support what has been said. The UK is a very good place to start a company. Something that we have been focused on in recent years is how we get our start-up companies the capital they need to scale up effectively. Compared with the US, there is quite a gap in terms of the companies that start their business and then need a big cheque to get them to the next stage of their journey. I think it is fair to say that, in the UK, there are fewer doors that you can go and knock on to get that sort of scale-up capital compared with the US. Compared with the rest of Europe, though, we are pretty well placed. Our challenge is to maintain that position and build on it.

Q118 **Chair:** What I am hearing is that it is a good place to start but, in order to grow, there are some challenges in terms of the capital and the speed at which things can be done. Is that a fair summary of your first point?

Dr Mark Payton: I think London is a really good place to start a business. If you are in Preston, it is harder. If you are in Preston and you want to get scale-up capital to build your business, it is close to impossible. That is quite a generic comment. I think the pieces are there. Some of the policies need to be tinkered and adjusted a bit, because some things in the regions are slightly disadvantaged.

Q119 **Chair:** We will really drill down into some of the regional issues. As a public service, then—I am a midlands MP. If there is someone starting a business in my constituency, how would they go about finding venture capital funding? I did have someone who started up the most amazing business in a garage in my constituency. They have found the funding, but I wonder how it could be made easier for everyone to find the funding.

Douglas Hansen-Luke: I guess both Mark and I have been investing in companies in the midlands. For ourselves, the great thing about having 180 companies is that you can usually find one somewhere. In Worcestershire, Sign Solutions and Unique IQ are two companies that we have invested in. One has already had a very successful sale to another company. With money from the British Business Bank, we are investing in SMEs that already exist. They cannot be older than seven years, but they do have to have revenues.

With companies like that that are already scaling up, the challenge we are finding is not that they want the money and are knocking on our doors. It is actually that for a family-owned business—a good SME that is making a small profit—the temptation in the region is to continue doing the same thing, rather than inviting outsiders in to take some of their equity or to lend them money. Partly it is about education, but to answer your question directly, there is funding from EIS and SEIS, the incentive schemes from the Government. In the past, the LEPs were very good. There really is a very strong start-up environment and culture in Britain.



HOUSE OF COMMONS

You can Google it and say, "I'm in Worcestershire. I want to start up a business," and you will be able to get a lot straight away.

Q120 Chair: It would show you genuine people. Thank you for finding some examples from Worcestershire. What you are basically saying to people starting businesses across the regions is, "Use Google and find the sources of finance there."

Dr Mark Payton: It is beholden on the managers to listen to them when they are being approached cold. One of the reasons why I set up Mercia is that unless you have a direct link to a manager—Amrit, I am sure you will talk to this—or somebody can make a recommendation, the chances of you getting investment cold for debt, private equity or venture is next to zero. We go out and do all sorts of open houses and invite people, not because we want to invest in them, but because we want them to know us and know how the system works. It is quite opaque, really. But, Amrit, you are so much better—

Q121 Chair: Amrit, when you started your business, did you get enough information about how to seek out support and how to seek out funding?

Dr Amrit Chandan: When we started the company, we really leveraged asking as many people as possible for introductions. As Mark said, trying to reach out cold is very challenging, and getting a response is nigh on impossible. That is often because investors are inundated with lots of emails, so it is difficult to respond to everything. However, talking to the university alumni offices, and to professional services such as accountants and lawyers, generated warm leads for investor conversations.

The challenge is that while there is a regional aspect to it, there is also a sector aspect to it. By and large, investors do not want to invest in capital-heavy, asset-heavy businesses. It is rare to find investors that will want to do that. The UK is much better at funding software and financial service-type businesses, and asset-light businesses, than ones that want to set up manufacturing and do things here. If you look at the big projects that have been announced—Britishvolt is an example—by and large, the funding for that came from outside the UK, and it was catalysed and supported by Government funding and other sources of funding.

It is not just about investor capital, of course; we have been heavily reliant on grants. I was aware of grants because I also have a bit of an academic background, so we had applied for different programmes during my PhD study and continued that at Aceleron as well. So, it was a mix of both private and public funding that we used to start Aceleron. If I was doing it again, I would do it very differently, but I guess that that is part of learning.

Q122 Chair: That is interesting. It sounds as though you all agree that there is a role for Government to fill some of the market failures, in terms of access for small and medium-sized businesses to venture capital. Catherine, you are obviously there for that purpose.



HOUSE OF COMMONS

Catherine Lewis La Torre: Yes. I also wanted to build on the previous answers, because if you do go and google that you are looking to raise capital for a business, you will be directed to the finance hub, which has been set up and is managed by the British Business Bank. That is designed to help entrepreneurs find the type of finance that will be best suited to their needs, and to show where they could go to request that type of finance. That is the information piece.

The second piece, which Amrit has also referred to, is about those warm introductions. I think that there is something about building the ecosystems in a very local way across the country. We have a regional network team with people in every region and devolved nation—we call it “feet on the street”—which acts as a convening force to bring entrepreneurs and sources of finance together—

Q123 **Chair:** So you see that very much as part of your mandate and role?

Catherine Lewis La Torre: Yes, and we think that that is fundamental, because it is not just about the capital that we can bring. Of course, we bring an additional supply of capital, but it is about creating that ecosystem and providing the glue that brings those communities together so that you have a better chance of having a warm introduction that leads to a greater propensity to get funding.

Q124 **Chair:** Do you also point people towards the Help to Grow programme that the Prime Minister set up when he was Chancellor?

Catherine Lewis La Torre: Yes. Through the finance hub, we have a partnership with 20 other bodies that sets out what the BVCA offers, what the UK Business Angels Association offers, and so on. It is not just about our resources; we try to give a full spectrum of the resources, in terms of both information and finance, that are available to entrepreneurs and businesses looking to raise capital for their business, start a business or take their business to the next level.

Q125 **Chair:** Do you do those things in physical face-to-face events and venues?

Catherine Lewis La Torre: It is a combination. We have a website providing digital access to information so that people can tap into that wherever they are in the country—indeed, not just in the country. However, we think that the networking and convening events part of it is central to making those connections and helping to join the dots, if you like, between those who need capital and those that have capital to invest.

Q126 **Chair:** Is there anything else, just on this subject of awareness for entrepreneurs?

Douglas Hansen-Luke: I am vigorously agreeing. The British Business Bank, which is one of our funders—one of our clients—has holding physical meetings to encourage networking included in its mandate. We have got mandates to meet—I think that Scottish Enterprise would do exactly the same—and we get paid more the faster we invest the money. As a venture capitalist, everything has been set up in the mandates to actually get the



HOUSE OF COMMONS

money out quickly, to make it available to people and to educate them and create those networks.

The challenge is finding exemplars. That is where we try very hard to say, "Here is a company that has done really well in your area. This can happen", because in many of the regions that will be receiving the regional grants and funds, the culture of setting up your own business is not one that is automatically there. In Silicon Valley, or if you talk about Cambridge or Tel Aviv, if every fifth person you meet has some involvement with a start-up, it is a lot easier to think about it. Here, we are actually selling the concept of that, but it is working. Britain is one of the most entrepreneurial countries in Europe and, as I said, we have a large number of unicorns per head as well.

Q127 Douglas Chapman: Good afternoon. Can I just say thank you very much? We have assembled a truly expert panel, and from your initial comments it is very encouraging to recognise the regional focus that many of you have expressed.

Is the venture capital market in the UK overly focused in London and the south-east, linking Oxford and Cambridge, at the expense of regional start-ups? Mark, you mentioned Preston, and how it was almost impossible to move on from the base where companies find themselves to find more capital investment.

I was struck by the comments of Andrew Williamson, from the British Private Equity and Venture Capital Association. In terms of clusters, he said that the golden triangle provides entrepreneurs and fledgling founders with "very significant network effects". The ideas, intellectual property and so on are also in other UK cities, including Manchester, Newcastle, Edinburgh and Bristol, and these opportunities are just as strong as they would be in the south-east. What is the barrier to getting to the stage where people who want to level up their economies, if we can put it that way, in different parts of the UK can do so, and how do we create the ecosystem that Catherine talked about?

Dr Mark Payton: The reason I brought up Preston is that I have just been looking at one of our companies, called Invincibles, which is based in Preston. It has just shared a video—that is why it was in my mind. It is a brilliant company.

We very much come from a point of view of levelling up the regions, not levelling down London. I would like the regions to be as good as London; that is how I look at it. London is just a very efficient system. It is a very efficient community. You can connect with fellow business owners and connect with capital. You connect with a series of capital along a journey. It is a lot less efficient out in the regions because, frankly, there are a lot fewer sources of capital in the first place. Most venture capitalists I know would cry at the thought of having 140 or 150 employees in their team, but that is the way. You have to be out in the community, so you need people—you need physical presence. We have eight offices, and we have an office in Preston. You need offices and people out there to source that.



HOUSE OF COMMONS

The challenge, because of that—this speaks to Douglas’s point—is that time then becomes a feature. I will use Invincibles as a great example. Invincibles is too old now to receive EIS and VCT money, but it is a business in scale-up. It just seems comical. The good news is that Mercia has a really strong balance sheet, so we put our own cash into businesses that sometimes slip outside that equation, so that we continue to support them.

That is where the regions are really suffering at the moment. Quite a few are falling into the trap of age and the financial health check, which, for a business growing much quicker in London than outside of London, is disproportionately punishing. That is why I am here today—to say that there are systems out there that work, but just because the regions are catching up at the moment, they are just that little bit older and slower in terms of businesses, unfortunately.

Q128 Douglas Chapman: Any other comments?

Catherine Lewis La Torre: Undoubtedly, London and the south-east are a magnet for capital and talent. That is important in venture because venture benefits from these networking effects and from being part of a cluster, which is why it sort of feeds on itself and builds the machine.

About half the deals in the VC industry in 2022 happened in London. That is because a big proportion of the VC community is based in London, and their sources of funding are also within London. It is a really important challenge to ensure that the sort of network effects that work very fluently in London can be replicated in other parts of the country.

What we have done about that at the British Business Bank is this. About five years ago we set up a series of regional funds—one for the north, one for the midlands and one for the south-west. That was really to start creating capital and also to support managers, like the managers we have represented here, to be mini magnets to bring in capital and people with the right skills to invest in these businesses.

Q129 Douglas Chapman: Are these regional funds of a similar scale to what you would expect in London and the south-east, or are they kept back in terms of their scale?

Catherine Lewis La Torre: They are pretty sizeable compared to the local demand. I will give you some numbers. The Northern Powerhouse Investment Fund has invested around a £1 billion into the region; that is our funding together with third-party capital funding. In the midlands fund—your area—we have about £500 million in the region, and in the south-west there is about £100 million; again, that is our funding plus third-party capital.

It is important to say that one of the ways we work means that we are not usually investing directly in companies. We provide funding to the managers, who have the sort of skills and networks in their communities and local areas that enable them to go and do the job of sourcing opportunities for their mandates.



Douglas Chapman: Does anyone else want to come in on that point?

Dr Amrit Chandan: From personal experience, we have been doing a funding round since about March, and once or twice a week I come down to London to meet with investors. There are probably about four or five in Birmingham, where I am from, and I have met with all of them; that is the size of the pool of the type and size of investor who is suitable for us. London is unavoidable if you want to raise money.

Q130 **Douglas Chapman:** Thinking about scale as well, if you go back to the Andrew Williamson quote, he said that all evidence shows that London does not have a monopoly on talent, good ideas or good innovation. He then posed the question: how does one build innovation clusters in different parts of the country of sufficient scale in order to realise the potential of those regions? The answer must be more than, "Venture capitalists need to get out more." A structure that lies behind this is needed to ensure that everybody gets a better kick at the ball.

While the Government have a distinct policy on levelling up, this can be levelling up without necessarily any Government intervention, because it is creating the jobs and technologies of the future. It is building an economy for everyone, not just for a certain geographical region, which, quite honestly, has always had that benefit that other areas have lacked. If you talk about Wales, northern England and Scotland, they are very much behind the curve.

Catherine Lewis La Torre: Andrew, as you know, runs Cambridge Innovation Capital, which is another fund that we have supported. The research coming out of Cambridge is a really important part of how he develops and supports his deal flow. Think about the universities that we have across the country with very strong capabilities in different sectors and technologies; there has to be some way to unlock that science and technology in our universities more effectively. We do that quite well as a country, but we could do it better. Douglas, you are better placed to talk about that. That is one way that you can stimulate that cluster, as you said. It is about the entrepreneurs, the technology and the spin-out of these technologies to become viable businesses backed by business angels, VCs and so on. It is about creating a conveyor of technology, entrepreneurs, and funders in a particular region. You need a convening centre for that activity to make it start to work effectively.

Douglas Hansen-Luke: A conveyor belt is the analogy that I most often use for this. You have to remember two big things. First, venture capital, it is said, is a very good way to make lots of money very slowly; it is a long-term process. Secondly, you have heard of 15-minute cities, but with venture capital hubs and investment it is about two hours—if you can drive from one end to the other in Silicon Valley in two hours, that is the limit of your immediate circle of trust. When you are investing for the long term with companies that are going to be very high risk, you really want them to be proximate to you. What the British Business Bank has done with its regional funds right now has really created those two-hour clusters around different parts of the country.



HOUSE OF COMMONS

Where we see the biggest difficulty with both our regional and our national university or science funds is the next level up—scale-up capital. Roslin Technologies, a company out of the University of Glasgow, and Vector Photonics, out of the innovation hubs around Glasgow, are both companies that have done very well. They have great technology, and we see them as being the best in the world at what they are doing, not just best in their local town or across the UK; but it is harder for them to get the next level—series B or C. When they want to raise £50 million to £100 million to really grow quickly, that becomes tougher.

Q131 Douglas Chapman: The Chair mentioned our own constituencies. My own constituency has just received city status. Within an hour's drive, we have seven universities. Heriot-Watt has just opened a robotarium. Dundee and Abertay are very strong on life sciences. Edinburgh—you name it. I think we have a very good part of the Russell Group and are very strong in that field. As an MP, how can I start to influence some of these decisions and networks that we have talked about? I sense that there is an old boys' network on the go as well. How do we break that cycle and get the good examples that you have mentioned? How do we get that information out there to other companies that are ambitious and want to make headway, but feel that they are stymied by the availability of capital?

Catherine Lewis La Torre: Again, that peer-to-peer community is really important. Amrit can talk to other entrepreneurs and they can learn from Amrit about where he has gone for capital; that is an important part of it. We have spent a lot of time in Scotland, and we are launching a new fund for the devolved nations. Scotland will be launched later this year. As I am sure you know, it has a very thriving community of business angels, who are another group of excellent connectors between universities, entrepreneurs and other sources of capital; plus, they understand non-equity sources of capital—grants from UKRI, for instance.

I would say that Scotland is one of the bright spots in the country in terms of having all the ingredients there for a thriving sector. Perhaps the missing piece—to Douglas's point—is the scale-up piece. Once you have started your business and grown it to a certain level, where do you get the big cheques from? In the UK, we are overly reliant on non-domestic capital, especially from the US. The US has been by far the biggest provider of non-domestic capital into the VC industry. It would be great if we could stimulate more domestic capital to be active at the scale-up stage.

Dr Mark Payton: We partner with 19 universities: Napier is one of them, Edinburgh is another. We have done 40 university spin-outs so far. One of the challenges that venture capitalists have is that you try to build a brilliant management team to grow the business, but one of the challenges of business is that, every 12 or 18 months, they are out raising money. So you are pulling in two different directions. We try to help to build great teams, and we do the lion's share of the fundraising—you will know this from our BBB funds.



HOUSE OF COMMONS

If you are a founder looking for money cold, it is very difficult; if you are a business going to a fund cold, it is also very difficult; but if you are an investor—a venture capitalist—and you have already done syndications with that fund in other deals, you can show them those businesses. We try to do that brokering. You are absolutely right: for almost all our life sciences businesses, the syndicated capital is US capital. In life sciences, there is limited capital that will go into those businesses domestically.

Douglas Hansen-Luke: The most direct thing that you as MPs can do is visit the companies or have them visit you. There is nothing our portfolio companies would like more than to have a local MP come and make a hero of them. Provide the exemplar and say, "Congratulations on what you are doing. We applaud this." You are busy people, so have a lunch club. Those are very small, practical things.

At the early pre-seed/seed stage, there are challenges in persuading people to take the capital and the money that is available. Once they are in the entrepreneurial mode and are growing, they want it non-stop, but at the beginning it is about getting the deal flow to push the money out.

Q132 **Douglas Chapman:** I don't want to labour the point about the regional situation, but one thing that stood out was the British Business Bank showing that London has less than 20% of the SME population but gets 50% of the equity deals. Apart from what you have already said in terms of the scale of the deals that go through, is there any particular factor involved in that? Is it just the fact that it already has a more mature ecosystem where people can access funds more easily, or is there another reason that makes it the magnet that it is? This might be covering similar ground, but is there anything else you can think of that would be useful?

Catherine Lewis La Torre: The ScaleUp Institute has done a lot of research into what an ecosystem needs to have to drive it. Capital is one piece; skills is another piece of the equation. It is skills, network, capital, and pushing forward in all of these areas is really important to make a difference.

It is getting better. The pace of change is perhaps not as fast as we would like it to be, but we think that the ecosystems are developing and building in other parts of the country, not just in London. I think the point was made earlier that we should not in any way try to hobble London, because it has become a mecca for venture capital and you do not want to lose that, but you want to export some of that to other parts of the country.

Q133 **Douglas Chapman:** If you said Northern Powerhouse or we said Midlands Engine or whatever, does that resonate with people?

Catherine Lewis La Torre: Yes. All of our programmes go through evaluations, and the Northern Powerhouse and Midlands Engine funds have had their first evaluations. We can see that there are very tangible impacts from having those funds delivered into the regions in terms of local employment and quality employment. The companies that receive



HOUSE OF COMMONS

the funding are growing more quickly, their turnover is expanding more quickly, so you can see the proof of the pudding—it is actually working.

We put together quite a strong case, we felt, at the last spending review to have additional funding for the regional funds, and I am happy to say that we were awarded an additional £1.6 billion to have a second generation of funds for the north and the midlands and to go into areas where we were not present before—into the devolved nations and expanding our footprint in the south-west. So I think we have early evidence that these things are working and we need to keep doing more of that. That was the argument that we made.

We are very excited to have the opportunity to launch new funds using lots of the learnings from the first generation. One of those learnings is that we are skewing the finance more towards equity, whereas in the first generation there was a balance between equity and debt. The debt footprint in terms of where you can raise debt finance is much more balanced across the country. It is on the equity side where you see disequilibrium between London and the rest of the country, so doing more equity is part of the solution, we think.

Having more microfinance is fundamental because there is a number of companies in the regions that need that first cheque just to give them the confidence to get their business off the ground—I think you mentioned that, Douglas. Once they are off the ground, the pathway towards other sources of funding starts to fall into place—not automatically or easily, but it is getting started, which is also fundamental.

Chair: It is good to see that the evidence suggests that Scotland is getting about 12%, suggesting it is doing reasonably well compared with the midlands and—

Q134 **Douglas Chapman:** I know, but we want more.

Catherine Lewis La Torre: It is coming. We are launching a £150 million fund for Scotland in the autumn.

Douglas Chapman: My application is in the post.

Q135 **Dame Andrea Leadsom:** So far, this is a lovely, cheery session. It is great to see that UK enterprise is alive and kicking. I would like to talk a bit about how you get into it.

I talk to plenty of entrepreneurs and people who own and run small businesses, and they might say, “I don’t even know what VC stands for,” or, “I wouldn’t want to go there.” I hope you will tell me that you lend to loads of businesses in my patch, which includes Silverstone and lots of high-tech engineering businesses—feel free to throw them at me. But when I talk to my innovation hub, I hear that a lot of those businesses say, “No, I ask my mate to lend me some money,” or, “I just do it locally, because it’s much easier.” That is one aspect—how do you reach out? Obviously, it is not your job to reach out, although it might be included in Catherine’s job to do so, to force people, saying, “You need some money.



HOUSE OF COMMONS

Let me give you some money," even though they do not think they need it.

Of the two bits I would like to focus in on, one is schools. As MPs, we talk to our sixth-forms. They might be doing a politics or economics A-level, but they are not doing an enterprise A-level. They might do a business A-level, but those tend not to cover starting a business or how to raise the money to start a business.

The other thing is unemployment. Separately, for other reasons, I have done a bit of research into this and into people on universal credit. I had some Ukrainian guests living with me, and one was a master nail artist—so, a very talented nail artist—who did not want to be on universal credit; she wanted to start a business doing people's nails, but the universal credit people were like, "Oh, okay." Theoretically, they are all there to help, but if you need kit and so on, there is no immediate link to, "What you need is a small amount of seed funding," and so on.

That is my starter for 10. I am interested to hear all your views on access to this, which is opaque to a huge number of people across the country.

Dr Amrit Chandan: The education point is important. There is a lot of knowledge, especially for companies that start as university spin-outs, for example, because the university will often have a department that is there to help secure funding and interface with investors. For companies that are not university spin-outs—our company was not—it is a lot more challenging.

Also—I give this advice to other entrepreneurs—peer-to-peer networks are massively important. I have received so much support from them, and will always give support to other entrepreneurs—introductions, anything I can.

It is really what the funding is there for. Venture funding is a very specific tool to solve a specific challenge. A venture funder may not want to invest in a nail salon, for example, because naturally it will just not generate the kind of return that a venture capitalist will need—I might be speaking a bit out of turn—but being able to find the right places and to understand if you don't know and have no one to ask is really challenging, so the education point is an important one, perhaps through local communities.

I remember when we started, I went to a Prince's Trust meeting, thinking that that might be good access to funding, but I very quickly realised that it was not aimed at the kind of business that we were trying to start, which was a technology business trying to operate all over the world. It just was not geared up for that, but it is the kind of place where there will be very small business loans for local businesses or small businesses.

Yes, it is perhaps about helping to nucleate networks, where people can ask for information and being able to find that information easily. Sometimes it might be just knowing that there is an entity called the British Business Bank. People might not know that that exists. The very first signposting to funding that we found was through Shell's website. We were applying through lots of competitions, and it used to have a great signposting tool. I don't know whether it still exists; I tried to find it before

this session, but could not. That was really useful, because you could filter by the type of business you are and what kind of funding you think you need, and you could get signposted to lots of different sources of funding.

Catherine Lewis La Torre: That is what the finance hub now does. That is what we do. Of course, we have to make sure that people find their way to the finance hub, but there are all sorts of things that can be done with Google: when people type in what they are looking for, it can drive them to the finance hub, so that they can get that first piece of information on the types of funding available.

You made the really important point that not everyone wants to raise finance. It is perfectly legitimate for a company to self-finance if that is a possibility. Some companies might think that they want a type of finance that is suited to their needs but it might not actually be the right type of finance for their needs. A loan does not work for many businesses that are not going to have revenues in the early years of their existence; that would be more for an equity provider.

The other thing that I talk about is almost like the friends and family supplement money. Not all of us have friends or family who can give some financing for us to get our business off the ground. Another programme that we run at the bank is the Start Up Loans Company, which provides relatively small amounts of funding to entrepreneurs across the country. We over-index on entrepreneurs from under-represented groups. Lots of women entrepreneurs struggle to raise the finance, and entrepreneurs from certain ethnic backgrounds struggle more than their white counterparts to raise the finance, so we over-index in certain communities to make sure that they have the chance to launch their business. As always, it is not just about the capital: a mentoring programme goes alongside that so that entrepreneurs can access people who can help them to structure their business plan and get them investor-ready to raise bigger pools of capital from different investors.

The other thing we have added to Start Up Loans quite recently is an education process. It is all online, but there are different modules in marketing, accounting and so on—very practical skills. You can go, as an entrepreneur, to learn more about these areas so that when you stand or sit in front of a group of investors, you are more ready to answer the questions that are likely to descend your way.

Q136 Dame Andrea Leadsom: All those things really do require that, first, you know you want a business and, secondly, you know what business you want, don't they? I am going a stage back from that: what are we doing to say to young people, "How about starting a business?" Or we could say to somebody who is on universal credit, "You don't have to choose to work in a store versus stay on universal credit; there are alternatives." Do any of you have good examples of people being able to find their way into business?



HOUSE OF COMMONS

Dr Mark Payton: I am the first in my family to get a first degree. There is a confidence piece here: having the confidence to go out and ask is not without its challenges. That has been very important to me.

We have a responsible investment group within Mercia, which is really important. It is about diversity and inclusion, but inclusion on all aspects. Part of that is that we reach out into the investment team, and the investment team go into schools. We get schoolkids to pitch business plans and think about businesses. These are 13 or 14-year-olds, so they are right at the early age of things. That is incredibly rewarding and very entertaining, actually. It is really about giving them the confidence that they could start it. Before they need the skills and so on, confidence is so important.

We are an investor in Amrit, I have to confess—we are an investor in Aceleron. It is not without its challenges to have the confidence to go out and actually ask for the money in the first place. I know this from Mercia: it is your baby—your child—and you are going to knock on tens if not hundreds of doors and generally get insulting, non-empathetic noes from people who have never run a business in their life before. Going into schools is really important, and I would say it is beholden on most of us to go at the very early end of that.

Q137 **Dame Andrea Leadsom:** Is that the right way to do it—to just ask, nicely, private companies to go in and talk to schools? What is in it for you?

Douglas Hansen-Luke: It has to be self-interested, because if it does not pay the bills when times get tough, it will get put off the list as a “nice to have”.

What I think you are talking about, Dame Andrea, is inspiring people. The experience that we have in Future Planet is that one of our partners runs funds around Harvard and around Stanford, and what they do is actually go out and talk about being an entrepreneur. If people think, “Actually, I want to go to university,” or, “I want to become a doctor or a professor” or whatever else it is, those are very clear, easy boxes, whereas being an entrepreneur and setting up your own business is not an easy box. Persuading people that it is a real option is something they have been doing at those elite universities.

To take it to the younger stage, I think that at that stage it is going to be really difficult—“What is an entrepreneur?” We are impact-led, so we talk about how we are looking to address climate change and trying to get rid of obesity—“Wouldn’t it be great if you had a company or a product that actually made the people around you healthier?” That is a great way to inspire younger people to think about how they are going to go forward. It matters more and more to them now, rather than saying, “Do this and you will be able to be rich,” because that is not just what people want nowadays.



HOUSE OF COMMONS

From our perspective, if you are asking, "What's in it for us?", which was your question, and how we make it self-perpetuating—starting that fly-wheel—it is about encouraging our portfolio companies, which will be recruiting locally, to inspire the students and workforce where they are. That would be a sensible way to do it. It is not being done much at the secondary school level.

Q138 Dame Andrea Leadsom: No, indeed, nor in the jobcentres. So that I understand, are you saying that what is in it for small businesses is the potential to recruit into small businesses young people who may go on to think, "Actually, I could be doing this myself"? That's an interesting idea.

What about the huge skew towards white men starting businesses—no women and very few people from different ethnic backgrounds? Likewise, in the EIS and SEIS schemes, those who make the decisions—the dragons, is it?—are all men as well. What is that about? Why is that? What can we do about that?

Catherine Lewis La Torre: First of all, we should do a lot about it. That is where we start from. It is all about changing the structure of current markets. You are absolutely right. To talk about venture capital funding, in particular, the vast majority of funding is funnelled through white males.

Again at the bank level, we have been trying to raise awareness, first of all, that that is happening and that it is unacceptable, not just because it is not the right thing to do—it is not the right thing to do—but also because we are missing out on so much talent and opportunity in the country by ignoring vast populations of entrepreneurs who could add to the productive capacity of the UK economy.

One of the things that we started to do, which was an initiative that came out of the Rose review board, was to manage the women in finance code. That is really to focus the mind on the fact that there are entrepreneurs who are women, who have fantastic business ideas or fantastic businesses, and that they deserve to be funded as well. We can only start to move the dial on that if we can measure and start to track it, so part of that initiative is about gathering the data to see where the baseline is.

You might recall that we did a piece of research pre covid, back in 2019, that looked at the proportion of funding from the VC community that went to all-female founded firms. The very dispiriting result of that research was that, in effect, 1p in every £1 was channelled through to female entrepreneurs.

Since then, things have been improving. We have to look at three communities: all-male teams, all-female teams and mixed-gender teams. It is all moving in the right direction, but again at a very slow pace. In our equity tracker research that we did last year, the proportion going to all-female founded teams was 2%, rather than 1%. It is an improvement, but nowhere near where we need to be. Mixed-gender teams show greater progress. So all-white, all-male is coming down, but far too slowly.



HOUSE OF COMMONS

What we need to do next is to move beyond having the measurements—we understand that this is a structural problem in the UK economy—to what we do about it. We have been undertaking a piece of research recently, which will be published shortly. It was working with VC managers and the broader community of VCs across the country to see what they do practically to help change the dynamic there. I cannot go live with what the results of that research will be, but there is something about making sure that there is a diverse group of people at the top of VC firms and in investment decision-making roles. That is one thing to unlock. Again, there is progress there. I think the BVCA did some research which showed that about 20% of private equity and VC fund manager teams have female representation in investment committees, but we are 50% of the population and probably 40% of the entrepreneurial community, so there is still some way to go.

Q139 **Dame Andrea Leadsom:** There is an extraordinarily long way to go.

Catherine Lewis La Torre: There is an awfully long way to go, but we are making progress. What we are learning from the interactions we have with our VC managers—we are the largest domestic investor in VC, with an investment in 70 funds managed by about 40 managers—is that we can use our influence as a limited partner and an investor to encourage them to do much more. We notice that they do want to do more. The awareness has been raised. Everyone, or nearly everyone, understands that this is something we have to improve. They are crying out, “What works? What could we do that really makes a difference?” That is what this piece of research we are undertaking is about: giving some tools and best practice—what has worked for other firms—that they should or could try and that might help with their situation.

Dr Mark Payton: You are right, Catherine. It behoves the investment managers to have their investment team reflective of the community. Fundamentally, it is all about deal origination. Two of the five NEDs on our board are women. Our investment team has a gender and ethnicity balance on it, because we think that is really important. Our equity team is led by Sandy. Our debt team is led by Sue. Our balance sheet is headed up by Angela. We still have work to do, but we are actively looking at this. Once you have that bit right, hopefully the other things will follow, but we have to look internally to address this.

Dr Amrit Chandan: Speaking from personal experience, I am from an ethnic minority background. My co-founder, Carlton, is from the Caribbean. When fundraising, our experience has been much more challenging than for our peers, often to the point where we are pitching to investment committees and investors who are all of a certain type, and that lack of diversity makes it so difficult. I have experienced racism in my lifetime and—I say this with a dispassionate view, and this is not me speaking with a chip on my shoulder—I just know when there is something else going on in the room; you just have that sense. I have definitely experienced that in the fundraising process.

Speaking more widely to diversity, it comes back to the question around education and what people know about what to ask for. If you have never run a business or raised capital before, you often do not know what you need to ask for or how much you can ask for. That can have a real slow-down effect on how far those businesses can get and how quickly, and how much use they can make of some of the incentives that have a timeline on them, because if you raise too small too early and then do not make the full use of the EIS allowance or the VCT allowance within that timeframe, that can really limit the full-scale potential. That is reflected in the reports released by the British Business Bank.

Douglas Hansen-Luke: Investing in diverse companies works. One of our two most successful companies is 23andMe, in America, and it is founded by a woman, Anne Wojcicki. The other is Vaccitech, in Britain, and it is the company behind the Oxford vaccine—Dame Sarah Gilbert is probably fairly well known to people. Those are two female founders. In Silicon Valley, 50% of the founders are non-white, so it does work.

When we look at this, we look at under-represented opportunity. When Mark was talking about this, he was saying that it is deal flow. We do not invest on the basis of gender, and we do not invest on the basis of colour, but we are aware that if a company makes diverse investments, particularly with under-represented groups, it is going to get better returns. It is very, very important for people to view it as something that is a win-win for all. It is not a box to tick.

Q140 **Douglas Chapman:** This is something the Committee has discussed in the past. Catherine, you were on the Rose review board. Is there anything in the Rose review that suggests the funds themselves should be dedicated to supporting women in business or ethnic groups? While the change in behaviour in terms of who is on the board and who is making decisions is really important, I wonder whether, if you want to increase your 2%, there is scope to have a specific fund to support that.

Catherine Lewis La Torre: Dedicated funds for under-represented communities of entrepreneurs?

Douglas Chapman: Yes.

Catherine Lewis La Torre: That is something we can already do; that is not ruled out. In our ECF programme, which is our emerging managers programme—it has been going for many years, since before the bank itself was established—we have a fund called Ada Ventures, which does exactly that. It goes out to source opportunities from entrepreneurs that are under-represented, typically female entrepreneurs and entrepreneurs from different ethnic backgrounds. We can already support them. What we do not have at the bank is a dedicated pool of capital for that. We are set up to address certain market failures, and we do not have that. I think it is something that we should explore, though, to your point that if you want to move more quickly on these things, would it be helpful to have a dedicated fund?



HOUSE OF COMMONS

The other thing that we do to accelerate the pace of change is that we have a direct investment activity. It was set up to address our market failure for deep tech investing, specifically in life sciences and in some other technology areas where the UK has a very strong lead and we want it to continue to have that lead—so quantum, AI and climate technologies, for example.

Because we are investing directly ourselves, we can make sure that our pipeline is much more inclusive. I think four companies that we have backed out of 15 have female leaders or CEOs, which is higher than the market. My own team has more female representatives than you would see in the market. These things do, I think, filter through. We are trying to lift best practice in what we do on the direct side. Even though it is a fairly small pool of capital—£375 million, which will build a portfolio of 30 companies—it is just to shine a light on what you can do if you structure yourselves differently, and if you think about who is taking the decisions at the top. It is about being much more inclusive in terms of the types of opportunities that you are looking to bring into the pipeline and showing how you can make a difference by leading from the front on this.

Q141 Dame Angela Eagle: Another of the market failures is the gap between the very initial start-up and then scaling up. What are you doing to address that? It was a problem when I was a Treasury Minister, many, many moons ago, and it still is.

Catherine Lewis La Torre: British Patient Capital, which is the business that I am CEO of, was set up in 2018 specifically to address that scale-up gap. That came out of the patient capital review that Treasury ran, as I am sure you will remember, which identified very clearly that getting from start-up to scale-up was really the big market failure in the UK. We had £2.5 billion to invest over 10 years, to start being catalytic in that area and to start closing that gap. Since we started, we have committed £1.9 billion, and about £1 billion of that is actually in the ground. We are investing in funds that are focused at the scale-up stage, which we define as series B-plus. They are looking for companies that are scaling up series B, series C and series D.

We also work through and alongside the market. An additional £9 billion of capital has been raised alongside us, so we have had £11 billion of impact, if you like, in terms of capital going out into the market since we were established in 2018. An early-stage evaluation of British Patient Capital was done last year, which showed the seeds of the proof of the pudding that this was working.

We have also found over the last year that the venture capital market has become much more challenging. Even though we felt we were making progress in helping to close that gap, it has got wider because of the market dynamics. The amount of institutional capital coming into venture capital funds at the scale-up stage, especially at the venture growth stage—that market has dried up quite significantly.

Q142 Dame Angela Eagle: When did that happen?

Catherine Lewis La Torre: It was the second half of 2022 that the market started to go—

Q143 **Dame Angela Eagle:** The mini-Budget?

Catherine Lewis La Torre: It was a bit before the mini-Budget, I would say. The first half of 2022 was pretty vibrant, and then the second half was slow, and that has carried on into the first quarter—

Q144 **Dame Angela Eagle:** What was happening?

Douglas Hansen-Luke: It was driven mainly by the global biotech crash in the States. Right now, there is a real shortage, and one of our three recommendations is for scale-up capital. What is very positive, although it is not going to happen overnight, is that there is huge cross-party consensus now in Britain. Rachel Reeves yesterday committed to back a British growth fund, the Lord Mayor of London, Mayor Lyons, talked about a British growth fund, and the Chancellor of the Exchequer said he is going to include something in his July speech. That means that the success that we have had with the British Business Bank at that early stage could well come a lot later in the next stage of the conveyor belt of capital. The fact that Rachel Reeves and Jeremy Hunt and the Mayor of the City of London can all agree on one thing is hugely positive for us in Britain, and it will make a big difference.

Douglas, you asked earlier what MPs can do. The City of London is trying to get the huge pools of capital tied up with pensions in Britain to start investing in this asset class, which they don't do at the moment. Most often, those pensions are regionally based. One of our LPs, Local Pensions Partnership, which is one of the first in the country to invest in venture, is based in Preston. If the MP for Preston were here, it would be great to invite them in and say, "This is a good thing. Do more of it. Put more into your local economies." The lead from the politicians that we are getting now will make a great difference, but it will take quite some time, Dame Angela, before it actually feeds in.

Q145 **Dame Angela Eagle:** To be honest, I don't think there have been political rows about the need to deal with the scale-up problem across time. I am glad you are optimistic, but I am slightly sceptical about whether that will solve the problem. Is there something more structural? Is it because the VC industry is so particularly based in one place and so un-diverse that it approaches only certain things? Is it because we have more of a class system in the UK, and large swathes of extremely clever potential entrepreneurs never get to be entrepreneurs because they never come across the thing that can inspire them, and are written off too early in their educational lives? There is something particular about here that isn't working, isn't there?

Catherine Lewis La Torre: I think there is something about having more capital come in from institutions at the top of the market. There is definitely an underfunding issue in the UK, compared with the US.

Q146 **Dame Angela Eagle:** For example, let's take the banking system. We



HOUSE OF COMMONS

know about its view of women. It is one of the most segregated sectors in the entire country, in terms of the pay gap. We know that it lends less regularly to women and is more sceptical about female entrepreneurs. We know that the rate of business start-ups in Britain would be massively higher if female business owners got the same kind of approach as men when they are looking for funding from banks, not VCs. We know that there are these structural discriminations. Dr Chandan mentioned his experience when he was looking for VC capital for his ventures. We all know this is there. We might not like to talk about it very much, although you all acknowledged it in answer to earlier questions. Maybe it is a structural issue with the way our society treats people who aren't upper-class white men.

Catherine Lewis La Torre: From my personal experience as well: I was born in the Rhondda valley and have been in the finance sector for 30 years, most of that in the private sector—I only recently moved across to the British Business Bank, in 2016—so I am very cognisant of all the things that you are outlining, because I have seen them myself. Lots of people talk about—

Dame Angela Eagle: All power to your elbow for staying in there, in what might have been quite a hostile environment.

Catherine Lewis La Torre: Yes. People talk about unconscious bias a lot—

Dame Angela Eagle: That is to make it easier for them to contemplate their own attitudes.

Catherine Lewis La Torre: Actually, I found that it is the conscious bias that used to really annoy me. But there is a way to power through this, or I found ways to power through it. I have set up my own business, twice—

Q147 **Dame Angela Eagle:** With all due respect, you are probably the exception. We do not know how many people get put off just because of the way that they are treated; they are not persistent enough.

Catherine Lewis La Torre: I agree. Making sure that you have the right sort of policies and support structures around groups that deserve to get funded but do not get funded, is a really important part of the mandate of the British Business Bank.

I would say, however, comparing when I came into the private equity industry at the end of the '80s to where we are today, it is very different. I have never been in the banking industry, but I can talk about private equity and venture capital, and things have improved a lot. We have still got a long way to go, but I think that there is much more awareness of how we are missing huge opportunities if we do not start backing entrepreneurs wherever they may be, whoever they may be, because they have the talent and the right ideas to launch and build successful companies. There is much more recognition now than there might have been when I came into the industry all those years ago.



HOUSE OF COMMONS

Douglas Hansen-Luke: Let us celebrate success. My parents—one from India, one from Britain—came here and the first place that they got was a rented apartment under the Heathrow flightpath.

Dame Angela Eagle: I have been canvassing out there; I know how noisy it is.

Douglas Hansen-Luke: It is very annoying, but they liked it. They bought their first home under the flightpath of Luton airport. The most extreme racism I had was being told that I could not join the Household Cavalry unless I said I had a suntan. In the past five years, I have had more of, "You're a toff and white."

The biggest problems facing Britain are putting large amounts of capital to work, because we are 1% of the world's population, but 2% of the world's economy; if we want to make a difference, we have to go out to the world. We have to work on our strengths, and spend a huge amount of time on that, because we have great strengths.

I am delighted that Labour and the Conservatives and the City are united behind that. Inequality is one of the worst things around, but we will be able to deal with it by taking forward our successes. If we beat ourselves up right now, we will slow down that process.

Q148 **Dame Angela Eagle:** It is not a question of beating up; I am trying to get you to give your opinions or views on some of the issues that have been long standing in the whole area. For example, a lot of this stuff is done by networking, and you have mentioned some of the new ways that you are trying to network and have regional presence, so that you can be on the ground, but a lot more networking is in those exclusive networks that tend not to be diverse. To what extent do venture capital and investment firms disclose their criteria for making funding decisions? Do you think that more transparency there would be a good thing?

Catherine Lewis La Torre: Dame Angela, you are almost telling us some of the results of this research that we have been undertaking into what will make the difference—

Dame Angela Eagle: I could have done it for you cheaper, then.

Catherine Lewis La Torre: Probably—I should have come straight to you. There is something about the inclusivity of networks. Again, if you think about women who might have other family issues to manage, such as children or elderly relatives, you have to bring those women together at a time when it will be convenient for them. It is not always the best time to bring people together for an evening drink; it might be better to have—

Dame Angela Eagle: Or the golf course.

Catherine Lewis La Torre: VCs are not really into golf, I don't think—that is not a big thing. But there is something about building the inclusivity of the networks and getting the VCs to cast their nets wider and to engage with potential or actual entrepreneurs in different ways. That is a really



HOUSE OF COMMONS

important part. There is greater understanding now that sitting at your desk, engaging at a golf course or just having an evening reception is not going to work for lots of different types of entrepreneurs.

Q149 Dame Angela Eagle: So you would be in favour of more transparency on decision making.

Catherine Lewis La Torre: I think transparency is going to be a recommendation from the report, in terms of how you can start to present yourself publicly as a venture capitalist so that you can appeal to a larger cross-section of entrepreneurs. Being transparent in your processes and open to engaging in different ways is a very good step forward in changing the structural issues that we have right now, which interrupt the flow of capital between those who have it and those who need it and deserve to receive it.

Q150 Dame Angela Eagle: Dr Chandan, what was your worst and your best experience of trying to get funding?

Dr Amrit Chandan: Just before I speak to that, I want to add a comment. The pandemic was actually a game changer for accessibility to finance, because overnight we went from needing to be in London and talking to VC funds in person to being able to do everything online and that being accepted. Pre pandemic, if you weren't willing to go and meet people in person, it was never going to happen.

Dame Angela Eagle: So paradoxically that was a good thing.

Dr Amrit Chandan: Yes, that definitely made it much easier, because it was just the way of the world.

In terms of the best experience and worst experience, the worst experience I had was with a venture fund not too far away from here that really led us down the garden path. We went so far in their process and pitched to their committee—this was after months of work—and were told that there was just one member of the committee who just would not come around to the idea, despite the investment director wanting to do the deal, do the investment, and everyone else wanting to do it. That process of trying to convince that investor went on for a whole month, and I was told, on the Friday before Christmas in 2018, that it wasn't going to happen. That was the absolute worst experience I have had.

There was also just the assumption from the people I was dealing with that I should have known that that was coming; I should have ignored what's written in the term sheet—there's exclusivity and all these things—and should have been talking to more funds in the background, to keep things going. There was just this expectation that I would have known that that was going to happen. We were on a very short timescale in terms of when we were due to run out of cash, and we had to work really hard over Christmas and the new year to try to turn that around, which we did at the time. That is where Mercia came in and helped us; it was during that period.



HOUSE OF COMMONS

In terms of the best experience, the Midlands Engine fund was a great example of that. When we started, one of the very first venture investments we had was from the early-stage Midlands Engine fund, which was administered by Mercia, so it was actually done as a convertible investment instrument. That is actually quite rare in the UK; we don't do many convertible loan notes—or not that I've seen or heard of from my networks. It's much more usual in the Americas than it is in the UK, just because of the way our tax system works. So getting that was one of the best interactions. And every time we get a yes from a committee and it's all go—those are all great experiences and worth celebrating.

Q151 Dame Angela Eagle: Of course; success always is. Why don't people want VC funding? Obviously, lots of start-up businesses basically use their personal credit cards. What do you think we can do to try to persuade people that they might do better if they do have VC funding or—

Dr Mark Payton: I don't quite recognise that, unfortunately. We invested £200 million last year and could have invested a lot more. To Amrit's point, this is about flexibility. Nobody knows quite what the business is worth on day one, so let's not argue about that; let's put a convertible loan in there, because speed is our enemy, so let's just crack on. I talked about Invincibles, and we lent money to that—the Preston business. I sit on the board of MIP. There was a loan in that business at day one. That was a university spin-out. The argument on what a business is worth, when you're backing an idea, is just a waste of time, if you can get around it.

Q152 Dame Angela Eagle: If you look at the valuation of some of the tech companies that came out of Silicon Valley, they were rather optimistic.

Dr Mark Payton: Yes, and that has helped us. You're talking about scale-up capital. We, globally, have had three venture cycles, and 2021 was the third of them. It's finished, so valuations have corrected down. What has happened in the UK is that scale-up capital, which is predominantly overseas capital, is focused on its own portfolio in the US, so it's not here any more. One of the problems we have with scale-up capital is that we don't have domestic scale-up capital. It's not here.

Q153 Dame Angela Eagle: Which is why everyone sells out all their nice ideas to the US.

Dr Mark Payton: Well, they sell out their nice ideas because they have got no choice. There is no more money to come in. When you are a business—I sympathise. I think every venture firm should have somebody in it who has grown their own business and knows what it's like when you can't pay your staff and you are not taking money home—I have done that before, personally. When you are at that point, and you could lose your business, or you sell it—well, you don't want to lose it, so you sell it. But if there was scale-up—to your point about an escalator of funds—and if there was continuum of capital, of course you would want to keep it here domestically, and grow it domestically.

I think there is a lack of domestic capital. I do not think there is a lack of opportunity. If we had more money—we manage money from retail, from institutional investors, we have regional pension funds and we are very fortunate to manage a number of British Business Bank funds. We have more opportunities than capital under management.

Douglas Hansen-Luke: I would build on that to say we have enough capital in Britain, but it is not being invested in this particular area. In the past, that was due to regulation; those regulations or the need for that regulation has gone now. That money can be there.

Q154 **Dame Angela Eagle:** You are thinking about the pension funds again.

Douglas Hansen-Luke: Yes, thinking about pension funds. We have got one of the largest groups and pools of capital in the world, and a lot of what it is being invested in for venture is about addressing the future needs of society: clean tech, AI, the green revolution. If you are a pension fund, you absolutely want to be investing for the long term, for what your pensioners are going to care about. It's time. It is good that it is moving in that direction, but it is time for that to move.

A final point on Silicon Valley versus Britain or whatever else—it is all about transparency. It is about saying how you invest. In the industry, it is about saying to people coming to you, "These are our investment rules and guidelines." At Future Planet, we are happy to share the scores that we give to companies and say where they are above or below what our threshold would be. We invest in the top 25%.

Also, when we talk to a company in Britain, we like to say, "You're the best company in Coventry, you're the best company in the west midlands, you are the best company in the UK, but you are also the best company globally. By the way your American or Chinese or Israeli competitors are trading at a price two or three times higher, so raise your level of ambition. Raise your valuation—it is not a bad thing, provided you can justify it."

The transparency is on both sides, both when we are investing and when we are talking to portfolio companies.

Q155 **Dame Angela Eagle:** You were saying in your initial remarks that speed was a problem over here—that we are slower. Yet, we are in an era of rapidly accelerating developments, some of which are fairly potentially hair-raising, if we go into the far reaches of AI, and others of which will hopefully be beneficial. I think the thing that is most surprising is probably the acceleration of change and the speed at which it is going. How can we deal with that and not be left behind?

Dr Amrit Chandan: From my perspective, it is about promoting risk taking. For all the good that private equity and venture capital does, it is really risk-averse, or can be quite risk-averse, so it is about promoting that risk taking capability. A funding round takes anywhere from six months to a year to complete. That is such a long time from when you



HOUSE OF COMMONS

need the capital to start, and it is such a big distraction for management teams.

I think we have a massive opportunity with the need to get out of this period of slow growth that we are in. Entrepreneurialism is one of the best ways to change that, especially if we can focus it on technologies that will help. The sustainability agenda is really high on that list. Anything that we could do—I say “we”—that the UK Government could do to de-risk those investments further and support the speed at which capital can go in will help elevate the UK’s status as a leader in that space, and would make a huge difference.

Q156 Dame Angela Eagle: Are you worried about the Inflation Reduction Act and other things in America and the relevant response coming from the EU and where that leaves us?

Dr Amrit Chandan: This is a massive challenge. One of my peers is about to set up a huge factory in the US to manufacture products because of the Inflation Reduction Act. There is nothing equivalent in the UK. There is so much money being thrown at them to go into the States to do that.

Q157 Dame Angela Eagle: It makes the tax breaks for VCs seem quite small beer, doesn’t it?

Douglas Hansen-Luke: It certainly does. You talk about speed. We talk a lot in Britain about patient capital.

Dame Angela Eagle: Speedy patient!

Douglas Hansen-Luke: In this company, I cannot talk about impatient capital, but the fact is that, even though it is happening faster and everything else, deep tech AI started many decades ago. It is accelerating. So we need to find a way to invest in deep tech, like Amrit’s company. We can say we have British exceptionalism and we should have evergreen permanent capital funds, but the rest of the world works on 10-year investment cycles, and, again, 98% of the world’s GDP is outside Britain. If we are going to get their money, we can try to change them and how they look at investing and moving away from a 10-year cycle, or we can accept that that is the way that 98% of the world thinks. Then, we can have new structures that actually cater for the different milestones and stages. We have been negotiating with a sovereign fund for funding nuclear fusion in private companies in Britain. They will not do a 30-year—

Q158 Dame Angela Eagle: In and around Oxford, is it?

Douglas Hansen-Luke: Actually, it is quite a bit in the west midlands as well, in the supply chain—Oxford, below Oxford and the west midlands. Their concern is that it is going to take 20 or 30 years until you can plug in in Britain in 2040, but they are willing to invest on a 10-year basis.

Looking at innovative financial solutions is something that politicians and legislators can work with. If we are too hidebound on the regulations and do not have the flexibility that Mark has talked about, we will be in trouble. We need to blend that impatience to make money now with the



HOUSE OF COMMONS

patience to accept that a lot of deep tech will take more than 10 years before the revenues come through. SpaceX, Tesla, Amazon and Google: all those companies were around for a very long time before they made profits, and actually, they still survived and they grew. We can do the same thing here in Britain.

Dr Amrit Chandan: That comes back to risk, because the cheque sizes in the States supporting those companies were so much larger at an earlier stage.

Dr Mark Payton: Amrit is spot on. I am a great believer in just making better what you have rather than keeping on saying, "If we had this magic pool of capital." With EIS and VCT, you have the most amazing pool of capital that is just growing. These are retail private investors who are putting more and more money into it. However, you can only invest between five and 10 a year, and you can only invest up to 20 in total.

Q159 **Chair:** Is that a million?

Dr Mark Payton: Yes. So that is all you can do. We are talking about big, ambitious plays. Amrit is spot on. We manage £400 million of EIS and VCT. The problem is that when you are deploying small amounts and you have this max of £20 million, you are not giving the business enough money to move from A to B. So people like Amrit are forever raising money. If you took that cap away, or increased that cap, that money would come. It will not be at the price of the taxpayer; the Government do not need to put any money in it. It is there already, but the £20 million cap is just too low. Lift that and then risk will be embraced because the way of mitigating risk is just frankly to put more money to work. Then people like Amrit are not spending every eight months going back out and raising money. They just crack on and grow the business that they want to grow.

That was one of our policy asks: to change the age of the business, so regional businesses that do take longer are not disqualified because they are older than seven years. I do not know where that comes from, but remove that. Just policy changes can do a lot to this and the money is there already—and it will continue to come. So unlike the scale-up capital that we have seen retrench because of the economic cycle that we are in, with VCT there was another billion raised this year. It was £1.1 billion last year. It is staying there and it would go higher if managers like Mercia could deploy more. We cap the amount of money we raise because the policy restrictions on it mean we cannot deploy that capital.

Chair: Last week, with the tax reliefs inquiry, Dame Angela, you asked whether the seed enterprise investment scheme worked. It would be quite interesting to hear from the recipient side of things, if you wanted to ask.

Q160 **Dame Angela Eagle:** Yes. When I was in the Treasury many years ago, there was no proof that any of these schemes actually worked. There was not a reasonable way of assessing whether they worked and there does not seem to be now. So it might be a good idea to ask you whether



HOUSE OF COMMONS

you think they work.

Dr Amrit Chandan: We wouldn't be functioning without them, so I would say that they would.

Q161 **Dame Angela Eagle:** Well, it is obviously a good thing to start with, but what about changes—you have mentioned some. There is a certain amount of money that one could give away in tax reliefs. It does not have to be given in exactly the same way as it has been given in the past. So are there things that could be changed that would make it a better fit for the era that we are in now?

Dr Amrit Chandan: There are a couple of things. If you could raise the cap on SEIS from £200K—again, to put this in perspective, if a seed round in the UK is £200k to £250k, in America that is £2 million to £2.5 million. You just add a zero to the end of the number and that is what we are competing against, so raising the cap there would be great. Now that we are out of Europe, anything we can do to reduce the burden of state aid would be really helpful as well, because often the funds are restricted by state aid legislation.

The other big change that would be monumental is reversing the catastrophic cut to R&D tax credits, which, for businesses like ours, is such a significant part of the cash that we now have to go and find it from other sources. It has been another burden at a time when things are really challenging anyway. Again, to put that in perspective, if we had a claim of about £500,000, that is £500,000 of cash into our business. With the new rules, that drops to about £300,000 to £350,000. It is such a significant reduction for where we are that that would be one of the best things that could be reversed.

Q162 **Dame Angela Eagle:** All cost more revenue to the Treasury, though, says the ex-Exchequer Secretary.

Dr Mark Payton: I know. If £2.6 billion is being invested in EIS and VCT but next year it isn't, that is a gap. All I am saying is that I think it works and it is pretty much globally envied, so it is a good system. Where I am coming from is the financial check where of course you are going to lose half your share capital—you are a venture business and you are losing money. Suddenly, if you are seven years old, you can't really see the EIS and VCT money, and the businesses growing slower in the regions are suddenly being disproportionately hit. The age of the business seems crazy. I don't understand why there is a seven to 10-year restriction in age, because the average age of a business outside London receiving its first investment is seven years. The second investment is nine years, and that's it, so that doesn't work.

One thing we have not talked about is the public markets. Mercia is on AIM, the alternative investment market. AIM should by definition be the place of choice to go, so do not sell the seller on. List the seller on, and raise your money there. But the liquidity there is pretty shocking. There was a change of rules in 2012 and in 2015 about stopping MBOs with VCT and EIS money.



HOUSE OF COMMONS

Chair: You are getting into real acronym-speak here. We must think of our viewing public.

Dr Mark Payton: Sorry. It was quite right: a change of rules on the venture capital trust was put in place to stop buying shares. Rather than investing money into a business, you are buying owners out. So, it is management buy-out and management buy-in—that sort of structure. A rule was put in place in that regard. The unintended consequence of that is that on the public markets, you can now only invest and cannot buy shares. You can invest at an IPO or a placing that you do later on. What you cannot do is buy shares on the market, which is liquidity, which is what everybody will talk about, with AIM saying it is woeful liquidity.

If that rule was reversed but just for AIM, I am pretty sure that Amrit would be much happier floating a seller on AIM knowing that his share price isn't going to crash because nobody is buying his shares when there is a seller. That is the problem. Businesses aren't going to AIM, and AIM is reducing in size. We talked about the networking, but everybody is talking about the fact that your business gets there, an institution sells, and hardly anybody buys, so your share price, no matter what your business, goes down.

So, liquidity—I am passionate about this, because a lot of regional businesses could go in that direction. It is just policy changes. I appreciate that it is tax and I appreciate the nuances there, but these three or four policy changes could affect the market quite dramatically without having to create another fund. We work hand in hand with BBB because there is a leverage effect in doing these things against each other. I am really passionate about those. I really believe in what Mercia is doing and what BBB is doing in terms of looking outside London, but I do not want London to be pushed down. I want the regions to come up.

Douglas Hansen-Luke: On what Mark has just said, you asked how we pay for it. That is something that does not involve any cost to the Exchequer. One of our policy recommendations, to Harriett's point, is more exchanges. George Freeman, the Minister of State for Science, is now pushing civil servants to spend time with scientists and to spend time in the City, and to have rotations from portfolio companies—so Amrit to work with a VC, and VCs and other companies to see how it is done in other countries. Funding exchanges between different parts of the industry and different parts of the global ecosystem will make a massive difference. It would help to get past the acronyms. It would get people talking to each other and help to generate that entrepreneurial spirit, because the money is there.

Even to the point about EIS allowing you to invest more in each company or for a longer period of time, just last week we had a company in the midlands that had had a partner walk away because of problems in their home country. Because they were seven years and half a month, we were not able to invest in them. This is a quality company doing great things. All of those would be good.



HOUSE OF COMMONS

We have only one other recommendation on EIS. I am slightly concerned about EIS. It allows the richer part of society to invest more to become richer. It does not seem entirely fair to me. I would lower the threshold so that more people can invest in EIS, and make it more democratic and increase opportunity there, but link it to impact for companies that are going to be doing positive good, because that is what we need.

Dr Amrit Chandan: That is a really important point. If you want to make it more impactful for the UK, target the EIS at companies that are doing meaningful, impactful things that will change the way the UK operates, and that are strategically important to the UK.

Dame Angela Eagle: I can just hear the debate in the Standing Committee on what “meaningful things” we can attach this to, but I think that you have made very good points about how some of these tweaks might make a difference.

Chair: Thank you, Angela. Douglas, did you have some more questions?

Douglas Chapman: Yes, on the British Business Bank. I was intrigued by my colleague’s comments about being in the Treasury. We have a phrase in Scotland. When somebody arrives from the Treasury they very rarely say, “We’re here from the UK Treasury and we’re here to help.”

Dame Angela Eagle: When you are the Exchequer Secretary, people come to see you to beg you to give them more tax reliefs and to lower taxes, but they never tell you how you will get the money to pay for it.

Douglas Chapman: Maybe we could grow the size of the cake overall by investing, and we would all be better off at the end of the day.

Dame Angela Eagle: Yes, that is the key thing.

Q163 **Douglas Chapman:** Anyway, that is a debate for another day, and I am sure that the witnesses have tons of information that they could give us on that. On the British Business Bank, Catherine, when you are sitting around the boardroom table, how do you go about assessing the performance of the bank, especially in terms of the regional angels programme and regional funds? What sorts of things are you and your fellow directors looking for at that stage?

Catherine Lewis La Torre: As I said, every programme that we have has been designed to face into some kind of market failure, so we have to track whether we are actually making a difference against that particular market failure. Are we closing the scale-up gap? Are we creating more employment in the north of the country? For every evaluation that we do of each of our programmes, some metrics are looked at to see whether we are indeed creating more jobs and creating more productive companies. That is filtering through into spin-over effects in the broader region in terms of R&D spend and so on. There are different metrics for different programmes, I would say, and those are then assessed at an early stage, at the mid stage—typically five years in—and then at the end of the life of the programme.



HOUSE OF COMMONS

The bank itself, as you will know, is relatively young as an institution. We were set up in 2014, and British Patient Capital was set up in 2018. We are five years into our life. I think we have some proof of the pudding, but we will have to wait to get further evaluations to see at the end of the day what we have achieved.

To go back to earlier comments, having a long-term view and making sure that we are a long-term investor is fundamental, and that is why we are very pleased that the life of British Patient Capital was extended at the last fiscal event to 2033, making it a 15-year programme rather than a 10-year programme, and also potentially allowing us to recycle the proceeds from our investments back into new investments—so moving British Patient Capital more into an evergreen structure rather than a time-limited intervention. All of those things incrementally will help, but we can only be catalytic; we cannot solve the whole market failure. I think it has to be a public-private partnership that really makes the difference, which is why I would agree with Douglas that having a higher risk appetite from institutional investors to do more in this space is what can really change the dynamic over a period of time.

Q164 Douglas Chapman: What do you think? Looking at the metrics, where are the success stories? Where are you finding the most impact in terms of either the jobs you talked about or moving to net zero? What are the big stories that you can tell in terms of success?

Catherine Lewis La Torre: The first thing is that we have a whole website full of case studies that show, company by company, how these companies are individually making a difference. The other way to look at it is as themes that we are investing across that we think are going to be very important themes for the UK to stay ahead of, versus keeping up with global competition—looking at areas like quantum computing and AI, which we talked about earlier. Climate tech is a big theme and, over the last year to 18 months, we have seen an increase—an uptick—in deal flow from specific climate tech firms and companies that are really dedicated to solving the climate crisis. The quantity and quality of deals in that area is expanding, so I think that is going to be a major theme not just for us, but for the whole industry.

Q165 Douglas Chapman: Have you seen that recently as well?

Catherine Lewis La Torre: Yes.

Dr Mark Payton: We see that as well. The big challenge with those is that they are quite capital intensive, so it goes back to the domestic capital. We have a number of businesses in our portfolio that we are able to fund at the moment, but you look forward and they are going to need £20 million, £30 million or £50 million. There is not a lot of capital domestically that can take them to the next stage, so we are putting in a lot of effort to try to find the money for them to go on.

Q166 Douglas Chapman: Is that why there are not so many UK companies involved in that space? We can look at offshore wind, for example, and things like that. There is a lot of foreign investment going into that.



Dr Mark Payton: Yes, corporate and foreign investment. We are just closing a round at the moment that is predominantly overseas capital and corporate investment; there are literally no domestic funds to go into it. The problem as we are going through this economic cycle is that normally what happens is the public markets slow, ventures come off and the corporates will stop. My nervousness is when the corporates slow down their investment: what is really going to happen? I think we are all in massive agreement that if you had domestic funds that were domestic—not 10% of the money in the UK—the security of the supply capital would mean that people can start these businesses up with the knowledge that the money is to come if their plan is delivering. At the moment, the money is not there.

Catherine Lewis La Torre: That has been our experience as well. I said that we set up a direct investment programme in 2021, called Future Fund: Breakthrough, to invest in these deep tech sectors. The investors that we are alongside in the 15 companies that we have in the portfolio right now are almost exclusively not domestic investors. They are strategic investors—corporate investors. There are some sovereign wealth funds, but we do not have the high street names that you would expect to have in our most brilliant businesses that are going to change how we live and work in the next 10 to 15 years.

Q167 **Douglas Chapman:** Is the Future Fund still a thing?

Catherine Lewis La Torre: This is Future Fund: Breakthrough, which is a dedicated deep tech fund set up in 2021. Future Fund, which was the covid-era intervention, was closed for applications at the beginning of 2021. That issued convertible loan notes to solve the problem that nobody was going to be able to agree on valuations in the depth of a global pandemic. Future Fund issued more than 1,000 companies with more than 1,000 convertible loan notes, which were match funded with private sector capital, and about half of those companies have had their equity round, so we have equity stakes coming out of the programme. The Future Fund is closed—that was a covid-era programme—but the portfolio is there, and it is a portfolio that is being managed by the British Business Bank as well.

Q168 **Douglas Chapman:** Okay, but if that fund were relaunched, is the time right in terms of getting to these sectors that may be underfunded at the moment, or is there another way of providing that?

Catherine Lewis La Torre: That was a very specific intervention to solve for the fact that equity markets totally seized up in the spring of 2020. I think we have different issues today. The other thing that is worth pointing out is that there is a lot of so-called dry powder, which is another industry term, which is capital that has been raised by the VC fund community but not yet invested. So there is capital in the system but, again, we are at that point in the market where there has been a dislocation and valuations are coming down. I think VCs are waiting for valuations to adjust so that they can start investing again.



HOUSE OF COMMONS

There are different dynamics that are causing the market to be slow in 2023 compared with what we had in 2020, but the covid-era Future Fund was a really effective intervention during the pandemic because of the use of the loan note, which cut through this whole issue of buyers and sellers having to arrive at a valuation.

Q169 Douglas Chapman: I need to check with my wife to see if she has any dry powder; I don't think she will have. In terms of the tools, powers and resources that you need, is anything crossing your desk at the moment in terms of what you would require to take the bank to the next level in your own development? This is a fairly young entity, so in terms of the development of the British Business Bank and the British Patient Capital fund, how do you see them moving forward? What else would you need from Government or the Treasury, or support in other ways, that would help you do that and be more effective in some of the metrics that you are not meeting?

Catherine Lewis La Torre: As I said, we are really pleased that the life of British Patient Capital has been extended. There was also a commitment to invest at least £3 billion over the next 10 years. That certainty of funding and that longer time horizon is incredibly helpful because that gives a very powerful signal to the market that BPC will be around for some time. We have become the largest domestic investor in venture capital. That is not the mantle we want to have. We would love other private sector asset managers or pension funds to own that title, but until that happens, that is the mantle that we own.

Our challenge is to make every pound we have go as far as it possibly can in terms of its impact in the real economy. A big part of that is having the private sector capital come in alongside us and, over time, become an increasingly large proportion of what we are bringing to the table. As I said earlier, I do not think there is a fully Government solution to the issue here. I think it has to be public being catalytic and private putting their hands in their pockets a bit deeper and a bit more often to help fund this space. If pension funds want to have a portfolio that reflects a 21st-century economy, they will have to do that anyway.

Q170 Douglas Chapman: What about the other relationships you have? We mentioned the northern powerhouse before, but there is also the Scottish National Investment Bank. Do you work on deals together, leveraging more capital? What is the situation with that, and is it a positive relationship?

Catherine Lewis La Torre: Yes. As I said, we will be launching later in the year a dedicated fund for Scotland. We have been investing through the regional angels programme in Scotland as well. What we are trying to do there is make sure that the capital we are investing is complementary to everything else that is out there, because there are public agencies in Scotland that are doing a fantastic job in this area as well. It is making sure that we are bringing something additional, rather than substitutive, to the whole landscape. We work very hard, as do our regional network teams, to ensure that we are having those conversations so that we are

bringing equity debt or microfinance that is not available from other sources or elsewhere in the landscape.

Dr Mark Payton: We have invested with the Scottish—I mean, there is sort of a match fund basis. We were talking about fast processes; their process is really slim and fast. Our experience has been very good on every occasion on that basis.

Q171 **Douglas Chapman:** That is good. Mark—Catherine, you have been marking your own homework with the last few questions—can you give an outsider’s point of view on this? You mentioned in your written submission that Mercia thought that the British Business Bank should create new funds to support gaps in the market. What did you mean by that? Does it include developing that regional ecosystem? Is that a gap in the market that you see, or are there other areas that you would focus on?

Dr Mark Payton: There are two gaps—Amrit, I am going to talk on your behalf, because one of them is with Aceleron. I sit on the board of Medherant, which is a Warwickshire business, and on the board of MIP, which is in your constituency, Chair, in Northamptonshire.

Chair: That is actually Dame Andrea’s constituency.

Dr Mark Payton: Oh, sorry. But it is the manufacturing piece. If you have a business that is developing and it has an innovative way leading through, but it needs a manufacturing part to it, and it is a loss-making venture-backed business and you do not have assets to secure debt against, it is almost impossible to raise money for that. There is definitely a gap there.

The other gap is on the scale-up capital. There is no point in having a huge pot of scale-up capital in Oxford or London; it needs to be out in the regions. How do you get scale-up capital where it is needed? I would argue that it has to be linked regionally and domestically. Those are the two areas that, for new funds coming through, would be quite positive additions for the regions.

Q172 **Douglas Chapman:** Finally, Douglas or Amrit, do you have anything to add in terms of the British Business Bank?

Douglas Hansen-Luke: Yes. I think that Britain has the potential to have dozens—if not hundreds—of unicorns. We have this huge research and development base and we have a pretty entrepreneurial population.

Since 2015, the British Business Bank being in place has really brought about funding at the earlier stage. If we want to break through—to get escape velocity for our biggest companies so that they can support the world—it is about asking the British Growth Fund, which people are talking about, to start now. The British Business Bank and British Patient Capital will be excellent partners for them. They will let them know how it has been done.



HOUSE OF COMMONS

It is about getting the Mayor of London here; it is about getting Andy Briggs, the chief executive of Phoenix, here; it is about getting the biggest pension funds and the biggest insurance companies here, and saying, "What's holding you back?" If you talk to them, everyone is saying, "We should invest in more impactful, more innovative companies." There is no one who will not say that, but this idea has been circulating for two or three years. We wrote a report on it with Lord Wei a while back. The British Business Bank has shown that it can work at an earlier stage; it is about using that as the exemplar for the next one.

Dr Amrit Chandan: From my perspective, it fills a really important role. I agree completely with what Mark said about the need to support asset-heavy manufacturing. Especially on clean-tech businesses, we are going to lose out massively with industries that will go elsewhere.

There is one thing that it would be great to see as a founder. One of the hardest things when you are doing a funding round is finding a lead investor—someone who is willing to put a stake in the ground and say, "We're going to back this business." The BBB does that through the regional funds and through partners, but what I have heard about British Patient Capital, without having actually spoken to them directly about investment, is that it is more of an "if you have investment, we'll follow and sort of top up around that" approach.

There is definitely a gap in the market there for direct intervention to actually be that sort of tent-pole piece of setting the stake in the ground and leading rounds. That could have a catalytic effect in creating lots of really valuable companies in the UK.

Q173 **Chair:** Amrit, would you ever consider listing your initial public offering on the London Stock Exchange? If not, why not?

Dr Amrit Chandan: That is a really good question, Harriett. There is a part of me that would really love to do it, but I think that is probably more because it would be a very interesting experience. Everything I have heard from all the peers I have spoken to who have done it is that it is a real pain to go through that process and there are easier ways to realise value from the company than listing it.

Q174 **Chair:** And those are?

Dr Amrit Chandan: Selling to a trade buyer, or doing a management buyout, or a private equity-backed buyout, or handing the company over—depending on what it is—to asset managers who can scale it and do things privately faster.

Q175 **Chair:** Okay. "Keep the business private," essentially, is what I heard. We heard some recommendations about the alternative investment market. I want to close this afternoon's session by asking each of you to come up with three things that Government could do. They may be things you have mentioned earlier in the session. What are the three things that you would like to see changed that are in the power of the Government?

For example, we have heard a lot about unlocking some of the money in



HOUSE OF COMMONS

the defined-benefit pension schemes. What physically would need to change? What could Government do? What three things could Government do to take your success story to another level in terms of its impact on the growth of the United Kingdom?

Douglas, do you want to start on that? You alluded to some of them earlier, which is why I picked on you first.

Douglas Hansen-Luke: You will not be surprised by my saying that it is about unlocking the money that is being held by local government pension funds—

Q176 **Chair:** How? That is what I am interested in.

Douglas Hansen-Luke: By leaving the EU, we no longer have to have the solvency rules, which were an opportunity not to invest in this. Now there is nothing preventing them from a statutory perspective. The Government does not need to change the laws. It needs to provide two things. First, it needs to provide a supportive environment, which I think is coming already from politicians. Secondly, it needs to address the skills gap, to help them to accelerate. Provide grants to educate and provide staff with rapid training in this area. There is a real skills gap for people to invest in venture capital. Local government pensions, or even the biggest insurance companies, have not been doing it before. If they all go into it at the same time, they are going to have problems recruiting.

Q177 **Chair:** The Government have to run the training programme for venture capitalists?

Douglas Hansen-Luke: No, no—not at all. The Government should encourage and fund—at the moment, Britain is very good at providing funding. If you are a tech company, you can get funding to hire a PhD from anywhere in the world and they can come into Britain. It is an existing Government plan. So, bring in funding so that you can fund secondments and training and exchanges. It is a big thing for us. If you have that, you have the knowledge, which would give people the confidence to do this.

So, first, encourage the biggest funds in Britain to unleash their capital. Secondly, at very small cost, fund exchange programmes within the UK and globally, in the same way that we do already for research and development in deep tech.

The third thing is to provide transparent data on where our industries and our companies rank globally, because this is a global competition for capital, and saying very clearly, “This is what the British Government is investing in this area in pure R&D. This is what we’re investing in the region. These are the companies that are here.” Providing that data—that pipeline—is something that will help people to invest much more quickly.

Q178 **Chair:** Thank you. Do you want to go next, Dr Payton?

Dr Mark Payton: My three changes are a bit shorter. Just get rid of the age cap—please just get rid of the age cap on businesses. It is really hamstringing the regional businesses, in particular.

Remove the cap on capital. That is a great way, at least in part, of addressing the scale-up challenge. This £10 million to £20 million cap on the total that a business can receive—

Q179 **Chair:** Is the cap done on an individual taxpayer level?

Dr Mark Payton: No, it is basically the rules. The rules are that a VCT or an EIS cannot invest in one business more than £10 million if it is not knowledge intensive, and £20 million if it is knowledge intensive. If you took that cap off, then the money is already there to deploy into those businesses.

So, get rid of the age cap so that we do not have to reject businesses that come to us because they are too old, and get rid of the cap on capital so we can continue to support good businesses that are looking to scale and stay here and grow.

Thirdly, on AIM, allow VCTs to buy shares. You have the initial public offering, and you have the placings, but when there is a sell of shares going on in the market, VCTs and EISs cannot buy the shares because of the rule we talked about before.

If you did those three things, certainly at the regional end, there would be a marked improvement. Those are policy changes, not the creation of new capital.

Dr Amrit Chandan: From my perspective, reversing the R&D tax credit change, even if it was focused to businesses that are creating positive social and environmental impacts, as well as financial return, would be really big.

Q180 **Chair:** Did you see the evidence that we took last week on tax reliefs from HMRC, about how difficult it is for them to go through all the different applications?

Dr Amrit Chandan: No, I didn't, but I can imagine that it can be a real challenge with the number of applications.

Another change, practically, is removing the 70% state aid limit. That would be quite big as well, in terms of the amount of support that businesses can receive. That links to SEIS as well, which is still impacted by state aid directly, whereas EIS is not.

Q181 **Chair:** And you think that is not even a UK rule.

Dr Amrit Chandan: It is Europe-wide legislation. We are out of Europe now, so let's do away with it and change that. There is a whole other debate there.

Thirdly, there have been quite a few changes to make entrepreneurs' relief less generous. I completely understand why, because it has cost way more



HOUSE OF COMMONS

to HMRC and the taxpayer than it should ever have done, while trying to encourage entrepreneurship. But I am sure that there are ways that it can still be there and have the original intended effect, which was to encourage entrepreneurs who are starting a business and looking to better their lives, in a way. Again, maybe by targeting that towards businesses that are creating positive social change, it could be a really good instrument to help us grow the whole pie, as it were.

Q182 **Chair:** Okay. Finally, Catherine?

Catherine Lewis La Torre: As you will appreciate, as an arm's length body, we are not best placed to comment.

Chair: There must be things you are asking for.

Catherine Lewis La Torre: What I would ask, I think, is that there is an opportunity for the bank and for British Patient Capital to continue to be catalytic in this space, and that we can share our knowledge and experience of setting up a programme from scratch that is working quite well with others who would be interested to join us in this very exciting part of the market.

Q183 **Chair:** Okay. Is there something that you can point the general public to on your website, where they can find out more?

Catherine Lewis La Torre: If you go to our website, you will see all of the funds that we have supported and all of the companies we have invested in directly, and there is also a huge number of case studies, which I hope will be inspirational for other would-be entrepreneurs—and deep tech entrepreneurs like Amrit—looking to take their business to the next level.

Chair: Can I finish by thanking you all? I know how valuable your time is, and you have been very generous in sharing a lot of it today, as well as a lot of insight for our inquiry.